



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** September 18, 2007

**TO:** Finance Committee

**FROM:** Housing and Redevelopment Division, Community Development Department

**SUBJECT:** Grant To Housing Authority For Acquisition Of 633 De La Vina Street

### RECOMMENDATION:

That the Finance Committee consider and recommend to the City Council approval of a \$741,080 grant of federal Home Investment Partnerships Program (HOME) funds to the Housing Authority of the City of Santa Barbara for the acquisition of 633 De la Vina Street.

### DISCUSSION:

The City's Housing Authority plans to acquire the property located at 633 De la Vina Street and operate it as part of its stock of affordable housing. The Housing Authority has requested a grant of \$741,080 of the City's HOME funds to assist in the acquisition.

#### Property Description

The property consists of an 8,000 square foot lot located at the southwest corner of De la Vina and West Cota Street and is improved with two 50-year-old 2-story residential structures comprising eight units – six 1-bedroom units and two 2-bedroom units. The seller, Thomas C. Wilcox, has participated with the Housing Authority for several years in accepting tenants with federal Section 8 rental subsidies. In fact, five of the eight current tenants are Section 8 tenants that were referred to the owner by the Housing Authority.

#### Acquisition Financing

The property was recently appraised at \$1.9 million, and the Housing Authority has successfully negotiated a sale price of \$1.7 million. The \$200,000 differential represents a tax deductible gift donated by the owner to the Housing Authority. In first position on title would be a seller carry-back loan in the amount of \$958,920 that the seller has required. The Housing Authority plans to issue a tax-exempt bond so that the interest rate on the seller carry-back loan would be below-market rate. The Housing Authority is currently negotiating the interest rate with the seller and anticipates a fixed rate of about five percent. The loan would have a term of 10 years. The Housing Authority would make monthly interest-only payments over the term of the loan and then retire the principal with a balloon payment upon maturity. The Housing Authority is currently negotiating with the seller about the possibility of securing an option to convert the loan upon maturity to a conventional fully amortized loan.

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REVIEWED BY: \_\_\_\_\_ Finance \_\_\_\_\_ Attorney

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The requested HOME grant in the amount of \$741,080 would cover the balance of the \$1.7 million sale price, representing a requested subsidy of \$92,635 per unit – a reasonable per unit subsidy figure. The Housing Authority would pay the estimated \$15,500 in closing costs.

#### Security

The requested HOME grant would be secured by a deed of trust recorded against the property in second position, behind the seller carry-back loan. With an appraised value of \$1.9 million, the grant would be completely secured. As a grant, there would be no issue regarding the security of a payment stream for repayment of City HOME funds.

As with all City-funded affordable housing projects and as required by federal HOME regulations, staff recommends that a covenant be executed to ensure that the property will be used to provide affordable housing to low income households. While federal HOME regulations require the term of the covenant to be no less than 15 years, the Housing Authority requests and staff supports the 60-year term that the City typically applies to rental housing it subsidizes.

Staff is in the process of amending the Affordable Housing Policies and Procedures, which will be brought to the City Council and the Agency Board in the near future for consideration. Among the recommended changes will be the lengthening of affordability covenants to 90 years. Staff is comfortable recommending 60 years at this juncture for Housing Authority projects, given that the Housing Authority is a public agency constituted solely to develop, acquire, and operate affordable housing. The Housing Authority's track record is exemplary, and the City Council influences Housing Authority policies in that it has the power to appoint and remove members of the Housing Authority Board of Directors. Allowing the Housing Authority to exercise some flexibility with rents and incomes within the general category of low income housing after 60 years is appropriate given the relationship between the City and the Housing Authority.

#### Justification for a Grant

Staff recommends that the requested HOME funds be provided in the form of a City grant. Even with the favorable terms of the first mortgage loan (with anticipated five percent interest rate and interest-only payments), there would be insufficient cash flow remaining to retire a City loan.

The limited cash flow is caused by the rental restrictions imposed by the use of federal HOME funds. For the five units designated as HOME-assisted units, monthly 1-bedroom rents would be limited to \$586 and \$755, and monthly 2-bedroom rents would be limited to \$905. Even with higher Section 8 rents for the remaining three units, the cash flow would be insufficient to cover the first mortgage loan payments and operating costs. The Housing Authority estimates that during the early years it will need to provide the project with a monthly operating subsidy of about \$600. Moreover, first mortgage loan payments will likely increase in year 10 when financing is expected to convert from interest-only payments to fully amortized payments.

#### Planned Rehabilitation

The Housing Authority plans to give the property a needed “face lift” by applying new treatments to the building façades and by installing new landscaping. Individual units will be upgraded as needed, with tenants remaining in occupancy. Upon vacancy, units will be thoroughly renovated. The Housing Authority estimates it will cost about \$250,000 to do the rehabilitation and is seeking possible funding sources other than City funds.

#### Tenancy

Existing tenants are all currently low income households and will be allowed to remain as long as desired, without any need for relocation. Rents will be equal to or less than the rents tenants currently pay. For the six 1-bedroom units, monthly rents will range from \$586 to Section 8 rents (where tenants pay no more than 30 percent of their income for rent). For the two 2-bedroom units, monthly rents will be at \$905. The proposed rents are considerably below market rents estimated by staff at \$1,150 for 1-bedroom units and \$1,675 for 2-bedroom units.

#### Sustainability Impact

The Housing Authority’s planned rehabilitation and sound management practices will significantly extend the project’s useful life. The Housing Authority will replace existing appliances with energy efficient models and will install new energy efficient lighting and plumbing fixtures.

#### Conclusion

Staff asks that the Finance Committee recommend approval of the requested grant to the City Council. The proposed project would be an important addition to the Housing Authority’s stock of affordable housing and would greatly improve the presently drab appearance of a highly visible downtown intersection.

**ATTACHMENTS:** Letter from the Housing Authority

**PREPARED BY:** David Gustafson, Housing and Redevelopment Manager/ SK

**SUBMITTED BY:** Paul Casey, Community Development Director

**APPROVED BY:** City Administrator’s Office



# HOUSING

AUTHORITY OF THE  
CITY OF SANTA BARBARA

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August 3, 2007

**HAND DELIVERED**

Mr. Steven Faulstich, Housing Programs Supervisor  
Housing & Redevelopment Division  
City of Santa Barbara  
630 Garden St.  
Santa Barbara, CA 93101

RE: REQUEST FOR CITY GRANT OF HOME FUNDS FOR THE ACQUISITION OF  
REAL PROPERTY LOCATED AT 633 DE LA VINA ST.

Dear Steven:

As you know, the Housing Authority has been looking at acquiring some existing apartment buildings to add to its affordable housing inventory. Current market conditions are such that "buying existing units and fixing them-up" can be less costly than new construction.

The one property we are presently pursuing is a small 8 unit complex located on the S/W corner of De La Vina and West Cota Sts.—633 De La Vina to be exact. While it suffers from some deferred maintenance, it's pretty basic with two buildings and a total of 8 units—6 one-bedroom units and 2 two-bedroom units. It is important to note that one and two-bedroom units are our biggest demand from a waiting list perspective. This property is also located in the Central City Redevelopment project area and our ownership would lead to needed landscape improvements and beautification of this otherwise drab corner.

In February of this year, the property was appraised for \$1.9 million (see enclosed appraisal report by David Jasso & Associates). We have been able to negotiate a favorable, below market purchase price with the owner at \$1.7 million. And while we have requested and will soon receive an update of the Jasso appraisal, it is highly doubtful that it will come in below the \$1.7 million price that we have settled on. A copy of the update will, of course, be provided to you once it is received.

Be advised that the Housing Authority Commission likes the property as an addition to the Authority's Non HUD public housing inventory and to that end adopted Resolution No.2276 last May (copy enclosed). It directed me to begin negotiations for the property's purchase.

As we have discussed, securing affordable rental housing for low income persons in our market today requires local subsidy. Pursuant to our discussions with Simon Kiefer of your office, we feel the most appropriate and straight-forward approach to this acquisition would be a grant of federal HOME funds in the amount of \$741,080. This equates to the current HOME subsidy limits for 3 one-bedroom and 2 two-bedroom units in our market area. The 5 units for which the subsidy is received would be subject to HOME rent and income limitations. As we told Simon, 5 of the 8 units currently have Section 8 tenancies and we know that the households are all below the low HOME

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income limits. So eligibility and non displacement works for 5 units and it is one of the reasons we seek HOME funding. As for the other 3 tenancies, we suspect that they are all lower income (below 80% of AMI) and thus meet our criteria for our Non HUD program under which this property will operate. We will confirm that through interviews of the tenants once we get closer to an actual purchase. Should any of them be over 80% of AMI, I believe the Housing Authority Commission will approve leaving them in place to avoid displacement and relocation costs and let the units convert through attrition.

As the enclosed proforma shows, the balance of our price would be in the form of a seller carry-back, Housing Authority tax exempt note issuance of \$958,290 at 5%. It also shows that we are willing to take on this property with a negative cash flow—further supporting our request for a grant versus a loan. The Housing Authority will also be expending \$35,000 of its own resources for bond counsel, closing costs and architectural work needed for the rehabilitation effort we will undertake following our purchase.

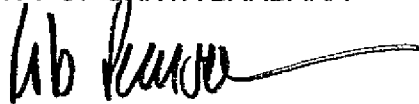
We estimate rehab costs to be in the \$250,000 to \$300,000 range in order to bring the property to the Authority's high standard for neighborhood and resident satisfaction. While we are not identifying the resources for the rehab effort at this juncture, we will explore various options over the next year. That will include an analysis of Authority replacement reserves in its Non HUD program, state and local rehab programs, etc. In any event, we are confident that we will be able to get the property to a much better condition and preserve it for years to come in a relatively short time frame.

If our grant request could secure your support and be placed before the City Council in the next 30 days, it would be greatly appreciated. With that moving forward, we would feel confident about engaging bond counsel for the needed tax-exempt, seller carry-back financing and working to close this transaction in September or October.

As always, the Housing Authority Commission and Staff are hopeful that you will agree with us on the wisdom of this acquisition as well as the structure of our proposed financing.

Sincerely,

HOUSING AUTHORITY OF THE  
CITY OF SANTA BARBARA



ROBERT G. PEARSON  
Executive Director/CEO

Encls.

cc: Housing Authority Commission  
S. Szymanski, Chief Operating Officer  
R. Maccianti, Property & Development Director  
R. Lawrence, Finance Director  
R. Fredericks, Administrative Services Director

